

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the Fourth Quarter of 1999 to the Fourth Quarter of 2003**

Idaho's economy is expected to grow much faster in the earlier years of the forecast period than had been predicted several months ago. In the January 2000 *Idaho Economic Forecast*, Idaho nonfarm employment was forecast to grow 2.7% in 1999, 2.1% in 2000, 2.1% in 2001, 2.4% in 2002, and 2.5% in 2003. This forecast has been updated, and now shows Idaho nonfarm employment rising 3.5% in 1999, 3.4% in 2000, 2.1% in 2001, 2.5% in 2002, and 2.3% in 2003.

There are two reasons for this improvement. They are the stronger-than-anticipated Idaho nonfarm employment growth in the latter part of 1999 and the upgraded national forecast. In January it was estimated that nonfarm employment would grow at a 0.1% annual pace in the third quarter of 1999 and 2.3% in the fourth quarter of that year. Recently released Idaho Department of Labor data suggest that job growth has been more robust. It is now believed that Idaho nonfarm employment expanded at a 3.6% pace in last year's third quarter and by 4.4% during the fourth quarter. This has effectively raised the starting level for the forecast of nonfarm employment. In addition, Idaho's economy will also grow faster in the short run, thanks to the improved outlook for the U.S. economy. It was previously projected U.S. real GDP would grow 3.9% in 1999 and 3.4% in 2000. In the current forecast it rises 4.1% in 1999 and 4.4% in 2000.

Given the size of the employment revisions, it is worthwhile to look at them in more detail. First of all, these revisions were indeed significant. For example, both September 1999 and October 1999 employment estimates were raised in excess of 14,000 jobs. The closest previous revision occurred in August 1997. It should also be pointed out that there were nine months in 1999 that the revisions (both up and down) exceeded 7,000 jobs. No other year even comes close to having that many months with significant revisions.

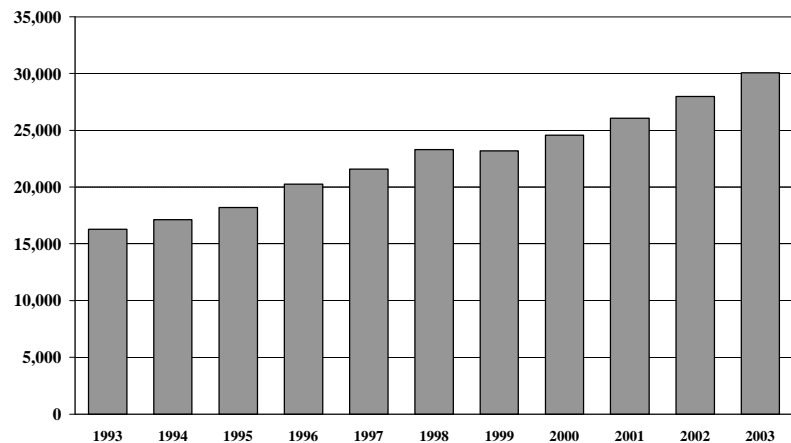
The size and direction of the revision varied by each Idaho nonfarm employment sector. Some industries grew faster than had been previously anticipated. The biggest changes were in business services and construction. The former was about 1,800 higher in 1999 than had been previously estimated and the latter was up about 1,100 jobs. Wholesale trade employment improved by about 500. Both communication and electronic equipment were up about 250. Another reason for the overall improvement is some sectors that were expected to experience losses were not hit as hard as had been previously thought. For example, the job losses for both lumber and wood products and computer equipment were both about 100 lower than had previously been reported.

Given the improved outlook for employment, it should not come as a surprise that Idaho income growth has also been slightly raised. Previously, Idaho nominal personal income was forecast to rise 6.3% in 1999, 5.6% in 2000, and between 5.5% and 6.0% from 2001 to 2003. In the current forecast, Idaho nominal income rises 7.5% in 1999, 7.4% in 2000, and averages about 6.0% in the remaining years of the forecast. In inflation-adjusted terms, Idaho personal income is expected to average 4.5% growth over the forecast period, which is noticeably higher than the 3.7% rate that was previously forecasted.

## SELECTED IDAHO ECONOMIC INDICATORS

**Electrical and Nonelectrical Machinery:** It appears that the previous forecast slightly underestimated the 1999 mid-year performance of Idaho's largest manufacturing sector, electrical and nonelectrical machinery. In the January 2000 *Idaho Economic Forecast* it was reported that this sector's employment grew at a 5.4% annual rate in the second quarter of last year and by 6.9% in its third quarter. Revised data provided by the Idaho Department Labor since the last forecast show that this sector's employment expanded at a 5.8% rate

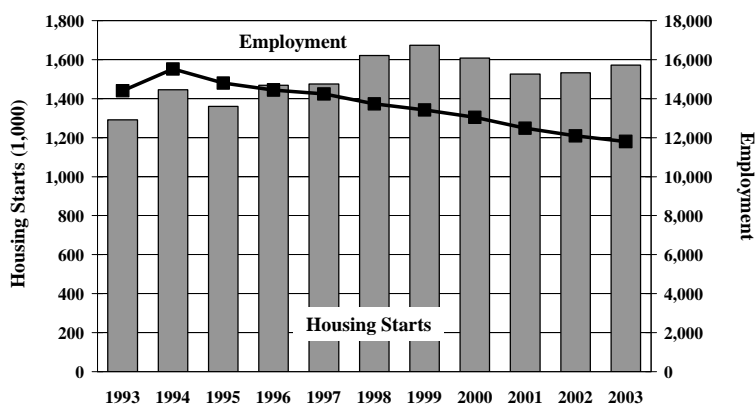
**Idaho Electrical & Nonelectrical Employment**



in the second quarter of 1999 and by 7.2% in the third quarter. These differences results rom the electrical component growing faster than had been anticipated and losses to the nonelectrical component being less severe then had been previously measured. Interestingly, preliminary numbers show that employment growth slackened in the fourth quarter, so this advantage disappeared. Despite this change, reasonably bright outlook for this sector has improved. This is because real spending on equipment and software is forecast to outperform previous forecasts. Instead of slowing to a 9.4% growth rate in 2000, domestic real spending on equipment and software is now forecast to jump 12.3% this year. In addition, the economic recovery in Asia should fuel the demand for electronic components. As a result, the output of electronic components should grow nearly 37.0% in 2000. This is welcome news for Micron Technology – a world-class producer of computer memory products that has recently weathered one of the longest down cycles in the semiconductor industry. According to Micron, the price per megabit of memory declined by 75% in its 1997 fiscal year, 60% in fiscal 1998, and 40% in fiscal 1999. Despite these declines, the company was able to avoid layoffs. One of the reasons the current slump has been so protracted is because worldwide memory manufacturing capacity has grown exponentially. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Nampa's Zilog is also looking forward to better days. This company designs and builds Application Specific Intergrated Circuits (ASICs). The company plans to expand its 500-person work force by 25 this year. Boise's other high-tech giant, Hewlett-Packard, has been less impacted by the current industry downturn. This is because employment at the site has moved away from manufacturing to research and development. During its early 1990's heyday, the site's employment rose above 5,000, thanks in large part to the success of the company's LaserJet printers. Employment at the site is currently at about 4,000 people. In its most recent move, it sold its LaserJet formatter board operations to Jabil Circuit, Inc. Virtually all of the employees involved with Hewlett-Packard's formatter operations were transferred to Jabil. Idaho electrical and nonelectrical manufacturing employment is expected to decline 0.6% in 1999, then rise 6.0% in 2000, 6.2% in 2001, 7.3% in 2002, and 7.5% in 2003.

**Lumber and Wood Products:** Despite a higher-than-expected performance last year, the future remains challenging for the Gem State's lumber and wood products sector. This sector most recently peaked at around 15,500 jobs in 1993. From then to 1998, nearly 1,800 positions were lost. In 1998 alone, payrolls dropped by 500 workers. Many of these losses resulted from mill closures. These

## Idaho Lumber & Wood Products Employment and U.S. Housing Starts



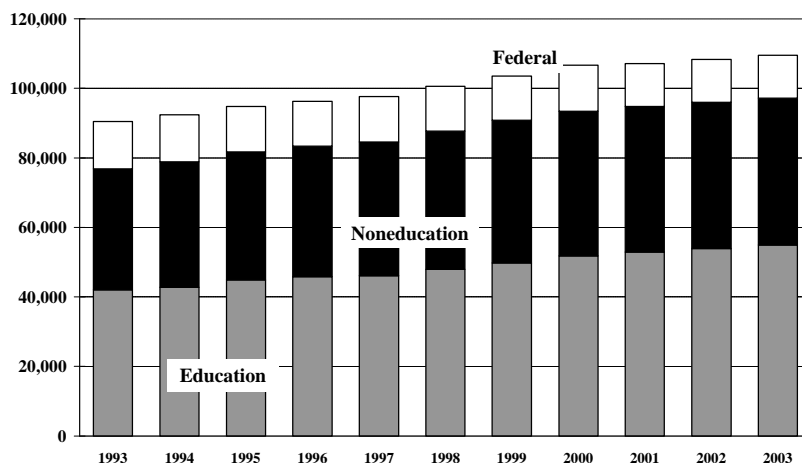
Sources: Standard and Poor's DRI and DFM

declines were especially disappointing given the strong U.S. housing market. Given the soaring demand, it would be reasonable to expect wood product prices to climb. Instead, lumber prices fell. This paradox—record consumption and declining prices—can be explained by looking closely at export markets. U.S. exports last year totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. Canadian overseas exports dropped 25% last year. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market

awash in supply—and prices declined accordingly. Another problem facing this sector is its excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. The longer term presents its own set of problems. Most notably, employment in the lumber and wood products industry will be constrained by the uncertainties concerning the timber supply from federal forests. Gem State lumber and wood products employment should slide 2.3% in 1999, 2.7% in 2000, 4.4% in 2001, 3.1% in 2002, and 2.4% in 2003.

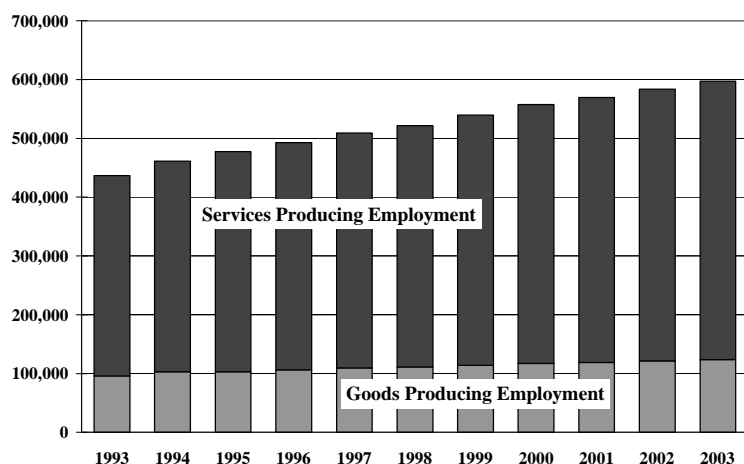
**Federal, State, and Local Governments:** Idaho's state and local government employment growth should slow considerably compared to the pace experienced during the first half of the 1990s. Fueled by a rapidly expanding economy and above-average population increases during that period, Idaho local government units struggled to keep up with the climbing demand for services. As a result, Idaho state and local government employment combined advanced over 3.5% annually during the first half of the decade, which was more than twice the national average. But even at this quick pace, they were hard pressed to meet the needs of a population that grew as much as three times as fast as its national counterpart. The early 1990s surge in population growth was caused by an influx of newcomers into the state. This occurred because Idaho's strong economy during the time was viewed as an oasis of opportunity, while most of the country was still a virtual economic desert. For example, during the period 1990-92, Idaho nonfarm employment rose about 4 percentage points faster than national nonfarm employment. As the gap between Idaho's and the nation's economic growth rates narrow, net migration into the state should slow, and so should overall population growth. As a result, state and local government employment growth rates should fall. But this is not the only factor that will put negative pressure on state and local government job growth. State and local government

## Idaho Government Employment



employment gains will also be limited by a state law that caps local government budgets. Idaho state and local government employment is forecast to increase 3.5% in 1999, 2.9% in 2000, 1.4% in 2001, 1.3% in 2002, and 1.3% in 2003. Nationally, state and local government employment is anticipated to rise 2.1% in both 1999 and 2000, 1.6% in 2001, 1.1% in 2002, and 0.9% in 2003. Most of the Idaho government employment growth should come from the education sector, which is expected to average 2.8% annual growth over 1999-2003. Over this same period, non-education employment is forecast to rise just 1.2% annually. Federal government job increases in Idaho will be hard pressed to match even these reduced growth rates. In fact, this category should see its employment fall from 12,749 in 1999 to 12,250 in 2003. The hiring of Census 2000 workers should provide a pause from this downward trend, but this respite will be temporary. By the second half of this year, Idaho federal employment should decline.

## Idaho Nonfarm Employment



### Services-Producing Industries:

Employment in the state's huge services-producing sector posted a strong showing last year. It grew by 3.7% in 1999, compared to 2.9% in 1998. The services-producing sector is the state's largest and most diverse employment category. Alone, it accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, what remains still accounts for

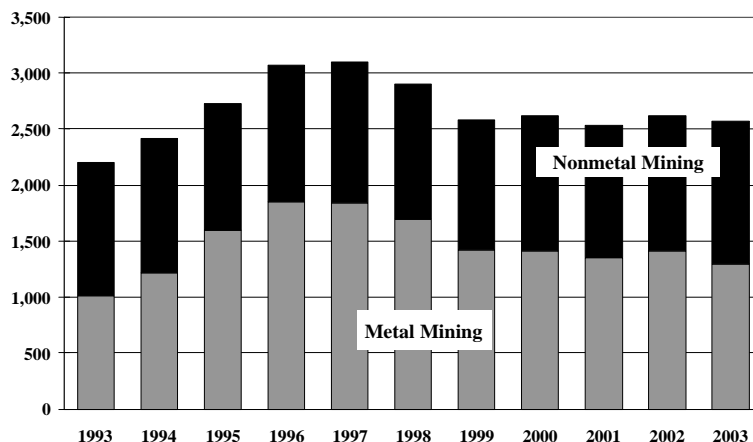
over 60% of all jobs. Several of these components account for this strong showing in 1999. Communication employment advanced an astounding 18.6%, thanks in large part to the opening of several new call centers around the state. A partial listing shows how dispersed they were. There was the GTE order-processing center in North Idaho, the Carlson Leisure Group call center in the Treasure Valley, and Convergys Call Center in Bannock County. Thanks to the onset of the information age, these call centers can be located virtually anywhere. Idaho has clearly benefited from this trend. Business services employment also exploded last year, adding nearly 2,900 jobs. Part of this increase reflects persons who are contract employees at manufacturing firms. Although they perform manufacturing tasks, they are employed by employment agencies and are counted as business services employees. Wholesale trade employment expanded by nearly a thousand. This gain was nearly matched by the increase in the Engineering, accounting, research, and management sector. Its employment jumped about 800 in 1999. The number of amusement and recreation service sector jobs rose about 400 last year. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. Overall, services-producing employment is projected to increase 3.7% in 1999, 3.4% in 2000, 2.4% in 2001, 2.5% in 2002, and 2.4% in 2003.

**Mining:** Idaho mining employment is expected to be relatively stable this year and next. While this may be disappointing compared to the growth this sector enjoyed in the mid 1990s, it is a welcome

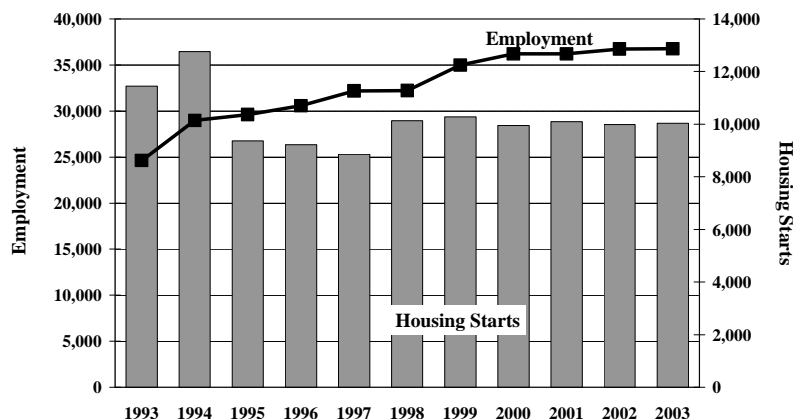
change from the declines it suffered in recent years. Employment in this sector went from around 2,200 jobs in 1993 to about 3,100 jobs in 1997, a 40.9% increase. However, 500 jobs were lost from 1997 to 1999. This battered industry's most recent round of woes was due in large part to the Asian economic crises that depressed worldwide commodity prices. For example, lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The

Delemar Mine in Owyhee County fell victim to low gold prices. But the Asian economic crisis is not the only factor impacting employment. Some mines are simply coming to the end of their economic lives. The most notable example is Meridian Gold's Beartrack Mine in Lemhi County. After processing nearly 50 million tons of ore and waste, the state's champion gold mine is expected to wind down its operations. By May of this year, only 25 of the mine's 121 employees will remain at the site. This move was no surprise; it was widely known that this mine would last about seven years. Against the backdrop of recent events it may appear hard to believe things will improve. However, there are several reasons for guarded optimism regarding this sector's short-term future. First, the Asian economic crisis is showing signs that it has bottomed out and this should halt the deflationary spiral, which will aid metal prices. Second, it does not appear that central banks will be selling as much precious metals as they have in the past. Third, many operations in Idaho have cut employment to the point where further large reductions do not seem possible. This is not to imply that the future will be without its challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Soft agricultural commodity prices will probably lead to acreage reductions that reduce fertilizer demand. This will affect companies in Southeast Idaho where phosphorus ore is mined and fertilizer is manufactured. Mining employment should hover between 2,500 and 2,700 over the forecast period.

## Idaho Mining Employment



## Idaho Construction Employment and Housing Starts



**Construction:** After experiencing a larger-than-expected growth spurt in 1999, Idaho construction employment should remain flat over the remaining years of the forecast. Earlier this year, it was predicted that the Gem State's construction payrolls swelled by a healthy 5.9%. However, data made available since then suggest that it was even stronger. Specifically, it is now estimated that this sector's employment rose 8.6% last year, nearly 900 jobs more than was previously forecasted.

Unfortunately, this stronger performance is not expected to continue. After 1999's jump, Idaho construction employment should experience meager growth from 2000 to 2003. This growth engine will be missed. The construction sector started to recover in the late 1980s. In 1983, construction employment was just above 13,000. It took off briefly to about 15,000 in 1985, but retreated to 13,721 in 1987. In 1988, the current recovery took off in earnest. It started slowly at first, with employment growing by just 3.5% in 1988. After a slow beginning, Idaho housing starts increased an astounding 40.2% from 1988 to 1989 in what would become the first in a series of six straight years of double-digit growth. There were over 12,700 housing starts when this run ended in 1994. This was nearly fourfold 1988's 3,334 starts. The boom resulted from Idaho's strong population growth during that period. Because of the dearth of housing starts in the early 1980s, the construction industry found itself in catch-up mode during most of the boom period. This helps explain why there was no serious housing inventory overhang despite the robust growth. Housing starts did slip 26.7% in 1995, however. Despite this drop, there were still 9,362 starts in 1995. It should also be noted that while housing starts fell in 1995, construction employment continued to grow, reflecting the strength of the nonresidential building sector. Since 1995, construction employment levels have hovered near 32,000, which is more than twice as high as in 1987. Idaho housing starts are forecast to remain near 10,000 units. Construction employment is forecast to grow slowly from 34,985 in 1999 to 36,759 in 2003.